



0000031717

Arizona Corporation Commission
BEFORE THE ARIZONA CORPORATION COMMISSION
DOCKETED

JUN 09 2000

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY

BT

IN THE MATTER OF THE APPLICATION OF
PONDEROSA UTILITY CORPORATION FOR
APPROVAL OF LONG-TERM DEBT.

DOCKET NO. W-01717A-99-0512

DECISION NO. 62621**ORDER**

Open Meeting
June 6 and 7, 2000
Phoenix, Arizona

BY THE COMMISSION:

On September 10, 1999, Ponderosa Utility Corporation ("Ponderosa" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for approval of three long-term loans in the amounts of \$115,295, \$50,000, and \$20,000. Ponderosa proposes to borrow \$115,295 from Walter and Ellen Brown for the installation of Well No. 2. The \$50,000 and \$20,000 loans will be secured from financial institutions for rehabilitation of a well and to replace the Applicant's truck. On May 9, 2000, the Commission's Utilities Division Staff ("Staff") filed a Staff Report, in which it recommended approval of the application without a hearing.

On May 22, 2000, Applicant filed an affidavit indicating that it published notice of its application for financing approval in the county where service is to be provided.

DISCUSSION

Ponderosa provides water service to approximately 495 customers in the Mountaineer community located six miles south of Flagstaff, Coconino County, Arizona. Ponderosa is currently charging rates set by Decision No. 62424 (April 3, 2000).

Ponderosa requests approval of the application to obtain funds to construct a new well, rehabilitate an existing well, and purchase a new vehicle. Financing for the installation of Ponderosa's Well No. 2 was approved in Decision No. 60343 (July 31, 1997) in the amount of \$100,000 at an interest rate not to exceed 10.25 percent. The total cost to install this well exceeded

1 the expected amount of \$100,000. The new well serves as a backup source of water for the existing
2 system as well as provides service to existing customers and new growth on the north side of the
3 system. Ponderosa never obtained the loan requested, and is now requesting re-approval of the loan
4 in the amount of \$115,295. The terms of the proposed loan of \$115,295 from Walter and Ellen
5 Brown will carry an interest rate of 8.9 percent per annum for a period of ten years. Annual debt
6 service on this loan will be \$17,451.

7 Ponderosa is also requesting funds to rehabilitate its Mountaineer Well No. 1 in the amount
8 of \$50,000 with an interest rate of 10 percent per annum for sixty months. This project involves re-
9 drilling and casing an existing well and installing a new 40 horsepower submersible pump and drop
10 pipe. Staff Engineering estimated the cost of the well rehabilitation to be \$52,600. The additional
11 \$2,600 will be generated from Applicant's internal funds.

12 The interest rate proposed by the Applicant for the well rehabilitation is the prime rate at the
13 time the application was filed, plus 2 percent. Staff computed the debt service on this loan using the
14 current prime rate of 8.75 percent plus 2 percent, resulting in a 10.75 percent interest rate. Using the
15 10.75 interest rate, annual debt service will be approximately \$12,971.

16 Additionally, Ponderosa requests approval to finance \$20,000 for the purchase of a new
17 vehicle to replace its 1986 Ford Pickup with an interest rate of ten percent per annum for a period of
18 sixty months. Annual debt service on this loan will be approximately \$5,099. The interest rate was
19 not adjusted by Staff for this loan because of the competitive market for vehicle loans.

20 Staff examined the financial impact of the proposed debt on the Company and determined the
21 Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC") Ratio were 1.48 and 1.53,
22 respectively¹. While the TIER is slightly below the preferred level, the DSC is above the minimum
23 preferred level. Staff believes Ponderosa has the financial capacity to borrow the funds. Staff stated
24 that after the proposed loans are drawn, Ponderosa's capital structure will reflect 49 percent long-
25 term debt and 51 percent common equity. Staff believes that this is a balanced capital structure
26 consistent with financial health. As a result, Staff concluded that the proposed financing is necessary
27

28 ¹ A TIER of 1.50 and a DSC of 1.25 are usually preferred.

1 to provide adequate service and to make needed improvements to the system, and is consistent with
2 sound financial practices. Staff Engineering has reviewed the proposed projects and concluded that
3 the improvements are prudent and the estimated costs are reasonable.

4 Staff indicated that Ponderosa currently has no maximum contaminant level violations and is
5 serving water which the Arizona Department of Environmental Quality ("ADEQ") has determined
6 meets the Safe Drinking Water Standards. In addition, Ponderosa is current with its property and
7 sales taxes.

8 We concur with Staff's analysis. Accordingly, we approve of Ponderosa's financing request
9 subject to Staff's conditions.

10 * * * * *

11 Having considered the entire record herein and being fully advised in the premises, the
12 Commission finds, concludes, and orders that:

13 **FINDINGS OF FACT**

14 1. Ponderosa provides water service to approximately 495 customers in the Mountaineer
15 community located six miles south of Flagstaff in Coconino County, Arizona.

16 2. On September 10, 1999, Ponderosa filed with the Commission an application for
17 approval of three long-term loans in the amounts of \$115,295, \$50,000 and \$20,000.

18 3. Ponderosa proposes to utilize the funds to construct and equip a new well, rehabilitate
19 its existing well, and finance the purchase of a new vehicle.

20 4. The total cost for the construction of the new well was \$115,295, the cost for the
21 rehabilitation of its existing well is estimated to be \$52,600, and the cost for a new vehicle is
22 estimated to be \$20,000.

23 5. On May 9, 2000, Staff filed a Staff Report in which it recommended approval of the
24 application without a hearing.

25 6. On May 22, 2000, Ponderosa filed an affidavit indicating that it published notice of its
26 filing.

27 7. Engineering Staff reviewed the projects to be financed and found the planned
28 construction and improvements to be prudent and the cost estimates to be reasonable.

8. Staff concluded the Applicant would not likely experience any difficulty in servicing the annual debt service of approximately \$17,451 on the \$115,295 loan, as well as \$12,971 on the \$50,000 loan and \$5,099 on the \$20,000 loan. Ponderosa's capital structure will reflect 49 percent long-term debt and 51 percent common equity after these loans are acquired.

9. Ponderosa is current on its property and sales taxes.

10. Staff indicated that Ponderosa is in compliance with ADEQ and is providing water with no maximum contaminant violations. The Company also meets the quality standards of the Safe Drinking Water Act.

11. Staff recommended approval of the loans and terms for the purposes set forth in Ponderosa's application.

CONCLUSIONS OF LAW

1. Ponderosa is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

2. The Commission has jurisdiction over Ponderosa and the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The financing approved herein is for lawful purposes, within Ponderosa's corporate powers, is compatible with the public interest, with sound financial practices, with the proper performance by Ponderosa of service as a public service corporation, and will not impair Ponderosa's ability to perform that service.

5. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

6. Staff's recommendations set forth in Findings of Fact No. 11 are reasonable and should be approved.

ORDER

IT IS THEREFORE ORDERED that Ponderosa Utility Corporation is hereby authorized to borrow up to \$115,295 from Walter and Ellen Brown at an interest rate of 8.9 percent per annum for

1 a period of ten years.

2 IT IS FURTHER ORDERED that Ponderosa Utility Corporation is hereby authorized to
3 borrow \$50,000 from a financial institution at an interest rate not to exceed the prime rate plus 2
4 percent for a period of sixty months. Additionally, Ponderosa Utility Corporation is hereby
5 authorized to borrow \$20,000 from a financial institution at an interest rate not to exceed 10 percent
6 for a period of sixty months.

7 IT IS FURTHER ORDERED that Ponderosa Utility Corporation is hereby authorized to
8 engage in any transactions and to execute any documents necessary to effectuate the authorization
9 granted hereinabove.

10 IT IS FURTHER ORDERED that such authority is expressly contingent upon Ponderosa
11 Utility Corporation's use of the proceeds for the purposes set forth in its application.

12 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
13 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
14 proceeds derived thereby for purposes of establishing just and reasonable rates.

15 IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall execute the relevant
16 loan documents within one year of the effective date of this Decision.

17 IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall file copies of all
18 executed financing documents setting forth the terms of the financing, within 30 days of obtaining
19 such financing.

20 IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall provide written
21 notification to the Director of the Utilities Division within 30 days from the date of this Decision the
22 date of completion of the new well installation.

23 ...

24 ...

25 ...

26 ...

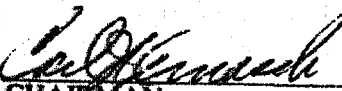
27 ...

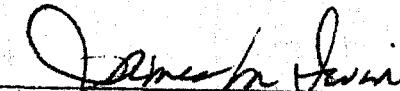
28 ...

1 IT IS FURTHER ORDERED that Ponderosa Utility Corporation shall provide written
2 notification to the Director of the Utilities Division within 30 days of the date of the completion of
3 the rehabilitation of the existing well.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.


5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6

7 
8 CHAIRMAN

9 
10 COMMISSIONER

11 
12 COMMISSIONER

13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
14 Secretary of the Arizona Corporation Commission, have
15 hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 9TH day of June, 2000.

18 
19 BRIAN C. McNEIL
20 EXECUTIVE SECRETARY

21 DISSENT
22 AG:bbs
23
24
25
26
27
28

1 SERVICE LIST FOR:

PONDEROSA UTILITY CORPORATION

2 DOCKET NO.

W-01717A-99-0512

3
4 Mr. Walter Brown
PONDEROSA UTILITY CORPORATION
5 5011 E. Cortez St.
Scottsdale, Arizona 85254

6 Lyn Farmer, Chief Counsel
7 ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
8 Phoenix, Arizona 85007

9 Deborah Scott, Director
Utilities Division
10 ARIZONA CORPORATION COMISSION
1200 W. Washington Street
11 Phoenix, Arizona 85007

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28